



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 9/27/2007

GAIN Report Number: UP7018

Ukraine

Poultry and Products

Strong Import Growth Continues Despite Domestic Production Increases

2007

Approved by:

W. Garth Thorburn, Agricultural Attaché
U.S. Embassy

Prepared by:

Oleksandr Tarashevych, Agricultural Specialist

Report Highlights:

Domestic poultry production is expected to increase in 2008, but at a somewhat slower rate. The domestic industry will continue to supply the retail market segment, while processors will continue to source from imported products. Local demand for poultry meat will continue to increase, fueled by strong consumer income growth and favorable poultry prices relative to red meat. The poultry import market could be affected by political changes, a possible result of the September 30, 2007 parliamentary election. A new government could target importers situated in Free Economic Zones thus threatening the import market for poultry. The probable accession of Ukraine to the WTO in late 2007 or 2008 may have a significant positive impact on trade flows.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Kiev [UP1]
[UP]

The data included in this report is not official USDA Data. Official USDA data is available at <http://www.fas.usda.gov/psd>

Executive Summary

Ukrainian poultry producers will continue to expand their production rapidly. The four largest market players will launch new hatcheries, production and slaughter facilities. The recent trend of vertical integration will continue with construction of new processing facilities for ready-to-eat frozen products. Production growth is expected to continue despite growing costs. The two major factors contributing to higher production costs are energy (both electricity and natural gas) and feed grain prices. The drought in marketing year 2006/2007 led to a sizable increase in feed grain prices. The government of Ukraine's (GOU) recent attempt to halt the increase in meat prices by introducing grain export quotas yielded insignificant results.

Consumption of poultry meat will continue to increase. This trend is being fueled by the increase in red meat prices. Poultry meat remains the cheapest meat product, and the domestic poultry industry is the most efficient in Ukraine. The Russian ban on Ukrainian red meat products had an insignificant impact on the domestic price of poultry in Ukraine.

Similar to 2006, import levels in 2007/08 will depend primarily on the political situation. The import of poultry remains a very sensitive political issue and is widely exploited in the on-going parliamentary election campaign. Following the closure of the "free economic zones (FEZ)" in 2005, only a small number of companies that were located in the zones were able to continue to import poultry (please refer to [UP 3011](#) and UP 0420 reports). These companies challenged the legality of the government's policy to abolish the FEZs in Ukraine's commercial court and managed to secure a favorable ruling that reestablished their FEZ privileges. It is unclear whether the new government that is formed after the September 30 election will continue to allow these companies to import into the FEZs. The import forecast is based on the assumption that the next government will implement a policy similar to what is in place today. Ukraine's expected accession to the WTO in late 2007 or 2008, might again reopen the poultry market to areas outside of the FEZs.

Section I. Narrative

Production

The phenomenal growth in domestic production that has occurred over the past few years is leveling off, however domestic production is still expected to reach 20-25% with a goal of capturing as much of the domestic market share as possible. Domestic producers are not expected to satisfy the domestic demand for chilled poultry meat until the end of 2008 or later. When domestic demand is met, local producers will attempt to capture the processed product market segment where frozen imported poultry dominates (meat processing). This segment is significantly less lucrative and squeezing U.S. and EU products out can be a long and difficult process.

Consolidation, mergers and acquisitions may never be a part of Ukraine's domestic industry because 4 major companies already supply 80 - 85% of the market (Myronivsky Khleboproduct – 38%, Agromars – 29%, Ruby Rose Agricole Co, Ltd. - 8%, Ptahocombinat Dneprovsky – 8%). The friendly takeover of Kurgansky Broiler by its competitor Agromars in late 2006 could be the last takeover. Antimonopoly legislation may effectively prevent further mergers, although some very small producers may join larger competitors or go bankrupt in next two years.

In June of 2007, the recognized market leader, Myronivsky Khleboproduct, announced they will launch a new poultry facility in central Ukraine with a total capacity of over 160,000 tons per year. The facility is expected to become fully operational by 2009 and comprise the entire production chain including a large hatchery (170 million eggs a year), poultry houses (416 in total), and a slaughter facility (130 million chickens a year). The company is also planning to invest over US\$1 billion into another yet similar production facility in 2009-10. With its own grain production and frozen ready-to-eat product food plant (\$110 million project) in Myronivka, the company is a few steps further vertically integrated than most U.S. competitors.

Agromars also announced the launch of a new food facility that will produce frozen processed products. Ukrainian processors are attempting to establish their presence in all poultry market segments, despite the significantly lower returns in the ready-to-eat market. Production of frozen products is new to the market and the recipes used by the industry are quite different from traditional preferences. Consumers are viewing the new products with skepticism and as "highly processed", "not natural" and even "low quality". These products have only been modestly successful because of the reasons described above and because only the small group of affluent city dwellers, to whom these products are targeted, purchase them.

The Ukrainian poultry industry managed to avoid significant problems (see points below) in 2006 / 2007 that could have negatively impacted the sector.

- The 2006 Avian Influenza outbreak in Southern Ukraine had little impact on industrial poultry production. The industry managed to convince consumers that only backyard production and wild waterfowl could endanger humans.
- The effects of the drought and smaller grain crop in marketing years 2005/06 and 2006/07 were offset by the imposition of grain export quotas. Because of this policy, Ukrainian poultry producers now have a \$20 to \$25 per tone price discount for feed grains, however this move did little to ease the high price of poultry. The Ukrainian Poultry Union took an active part in lobbying for the introduction of export quotas and to maintain them despite the pressure placed on the GOU by grain traders and international governments and organizations.
- A slight decline in backyard chicken production (not discussed in this report) resulted in higher domestic prices in 2006 and 2007.
- GOU efforts to ensure low prices for poultry meat by way of limiting imports through the closure of the FEZs was circumvented by importers. Importers were able to legally argue that they were entitled to operate in the zones under the same conditions as in 2004, prior to the closure of the FEZs.

Some Ukrainian poultry producers started to pay more attention to production of alternative poultry species including ducks, geese and turkeys. These producers encountered a similar problem the producers of the ready-to-eat poultry products encountered. The average Ukrainian consumer did not embrace these products with open arms and retailers were not ready to market the products. Also, Ukrainian consumers were not ready to pay higher prices for meat they perceived as different.

Consumption

The consumption of poultry in Ukraine will continue to increase in 2008. This growth will take place in both market segments: domestically produced chilled poultry for the retail

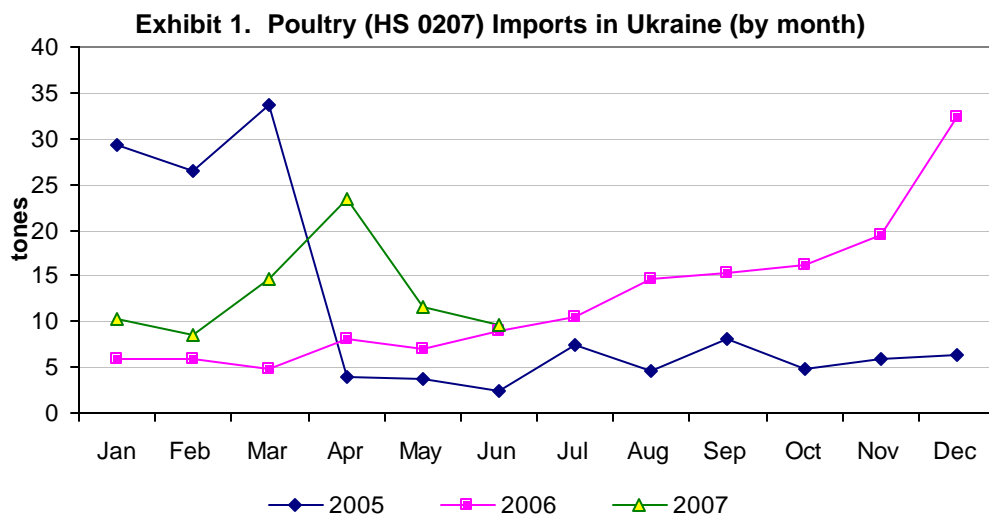
market and frozen poultry for further processing. Legally imported U.S. product is used almost exclusively for further processing. The growth of domestically produced poultry is expected to eventually take market share away from U.S. products that are used in the processing sector. This could happen as early as 2008. Consumption of ready-to-eat semi-finished products is expected to grow insignificantly.

Consumption growth is fueled by two factors: income growth and the increase in red meat prices. Disposable incomes in Ukraine increased by 28% in 2006, so many of the low-income consumers were able to increase their consumption of poultry. (Note: the official average monthly disposable income in Ukraine remains quite low at UAH 722 (\$143) as of July 2007.) Ukrainians are gradually switching to poultry products from traditional pork and beef. This trend is expected to continue in 2007 and beyond due to increasing red meat prices, the inefficiency of Ukrainian beef and swine production, and prohibitively high import duties for red meat. Unlike poultry, imports of red meat through the FEZs are prohibited.

Avian Influenza (AI) outbreaks in early to middle 2006 had little impact on poultry consumption. The decrease in demand that occurred at the time of the outbreak was quickly reversed. The public's interest in AI had dissipated significantly by early fall 2006. Possible future AI outbreaks outside of Ukraine are not expected to have a significant impact on poultry sales. If an AI outbreak occurs on the premises of one of the domestic poultry producers, then consumption could be negatively affected.

Trade

The trade forecast for the remaining months of 2007, as well as for 2008 is a difficult to predict. Import tariffs remain at prohibitively high rates and the slight tariff decrease in August 2005 had no impact on trade flows. Trade in poultry remains a sensitive political issue and is impacted by political debates and negotiations between commercial companies and the government rather than a function of supply and demand. In most cases, the volume of imports is directly correlated to court decisions or political deals with businesses situated in FEZs.



Source: State Statistics Committee of Ukraine

Following the elimination of tax privileges associated with the FEZs in 2005, imports of poultry decreased significantly. Some companies situated in the former FEZs managed, through court decisions, to get their privileges reinstated. These companies argued that they followed the legal framework outlined by the previous government and that legally they

should still have the right to operate in the zone. The companies that are still operating in the FEZs are responsible for over 97% of poultry imports in 2007 and will likely remain large importers in 2008.

Trade estimates for 2006 were revised to comply with official statistics. FAS Kyiv's forecast significantly underestimated trade for 2006 because the GOU decided not to close the remaining FEZs as anticipated. Imports of poultry in 2006 were possible because of a political deal between the government and importers, partially in reaction to slight production delays. That decision resulted in a significant increase in poultry imports in August and September 2006 (see Chart below). The abnormally high import level recorded during the fall months of 2006 proved short lived and trade decreased to a more "politically comfortable" level of 10 thousand tons a month in January 2007.

The GOU is expected to continue market interference aimed at limiting poultry imports every time imports exceed the 8-to-10 thousand ton per month threshold. The peak recorded in early spring 2007 is a good example of such behavior. The government took immediate precautions that resulted in the sharp decrease in poultry imports in May 2007. These policies are expected to continue throughout the rest of 2007 and 2008. Thus, the trade forecast for 2008 contains a conservative 120,000 ton import level. Sporadic trade peaks could increase the estimate quite a bit, but continuing domestic production increases is expected to have a negative impact on imports, especially towards the end of 2008.

Significant imports of processed poultry products (HS 160232) into Ukraine continue from Russia and Belarus. Ukraine's prohibitively high import duties for raw poultry products coupled with Free Trade Agreements with Commonwealth of Independent States (CIS) countries have resulted in processed poultry product imports from Russia and Belarus, which are themselves net poultry importers. The phenomenon is expected to disappear only after Ukraine's accession to the WTO.

Important note: The forecast is based on "policies that are in place" and does not account for any policy change or unpredictable market event. The upcoming parliamentary election in late September 2007, could be such a wild card. The current government could survive, but opposition parties also have a good chance to take the majority and to take control. The policies that exist today are expected to survive only if the current government survives. A new government could once again target the FEZs thus stopping imports of U.S. poultry. On numerous occasions, opposition party leaders have announced their desire to close the free economic zones. If the second scenario occurs, then poultry imports are expected to be below the forecasted level. This scenario occurred in 2005 and the effects can be seen in Exhibit 1 in the March-April 2005 column. Poultry shortages and significant market price increases are usually not factored into these decisions.

Ukraine's accession to the WTO is expected late 2007 or 2008 and is the second unpredictable factor that could have a significant impact on poultry trade in 2008. The accession is expected to decrease import tariffs from 100% - 200% down to a reasonable and nonrestrictive level. This will allow poultry to be imported through other Ukrainian ports or border crossings located outside of the FEZs. In this case, more meat packers will have access to imported meat and more competition will be introduced to the market. Importers will have to compete amongst themselves. The number of importers is expected to increase significantly, as well as the import quantity. The agrarian lobby is expected to resist WTO accession as they have in previous years, however the government of Ukraine remains determined to fulfill its international obligations to join the WTO in late 2007 or early 2008.

Section II Statistical Tables

Broiler Meat PSD Table*

	2006 Revised		2007 Estimate		2008 Forecast
	USDA Official	Post Estimate New	USDA Official	Post Estimate New	Post Estimate New
Market Year Begin		01/2006		01/2007	01/2008
Inventory (Reference)	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0
Beginning Stocks	0	0	0	0	0
Production	375	372	490	460	540
Whole, Imports	3	1	3	2	2
Parts, Imports	73	148	55	120	120
Intra-EU Imports	0	0	0	0	0
Other Imports	10	9	10	10	10
Total Imports	76	149	58	122	122
Total Supply	451	521	548	582	662
Whole, Exports	0	0	0	0	0
Parts, Exports	0	0	0	0	0
Intra EU Exports	0	0	0	0	0
Other Exports	1	5	3	3	5
Total Exports	0	0	0	0	0
Human Consumption	451	521	548	582	662
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	451	521	548	582	662
Total Use	451	521	548	582	662
Ending Stocks	0	0	0	0	0
Total Distribution	451	521	548	582	662
CY Imp. from U.S.	44	71	40	90	80
CY Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0
Inventory Balance	0	0	0	0	0
Production Change	30	23	31	24	17
Import Change	-45	11	-24	-18	0
Export Change	0	0	0	0	0
Trade Balance	-76	-149	-58	-122	-122
Consumption Change	6	18	22	12	14

*Not Official USDA Data

**Imports of Poultry Meat into Ukraine (RTC equivalent basis)
(Whole Birds and Poultry Cuts HS 0207 and HS 16023)**

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	1000 MT
Imports for:	2005		2006
U.S.	65	U.S.	72
Others		Others	
Germany	20	Germany	48
United Kingdom	15	Belgium	8
Poland	8	Hungary	7
Hungary	7	Russia	7
Russia	7	Brazil	6
Brazil	6	United Kingdom	4
Lithuania	5	Italy	2
Belgium	4	Netherlands	2
Total for Others	72		84
Others not Listed	11		2
Grand Total	148		158

Source: Ukraine's State Statistics Committee

Imported Broiler Leg Quarter* Wholesale Price

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Prices in	UAH	per uom	1 kilogram
Year	2006	2007	% Change
Jan	11.0	8.15	-26%
Feb	9.8	8.05	-18%
Mar	9.2	8.50	-8%
Apr	8.7	8.50	-2%
May	8.4	8.60	2%
Jun	8.4	8.70	4%
Jul	8.4	9.05	8%
Aug	8.0	9.00	13%
Sep	8.3		
Oct	7.85		
Nov	7.8		
Dec	7.75		
Date of Quote	09/09/2007	MM/DD/YYYY	

Source: Ukrainian Importing Companies

(Exchange Rate: \$1= UAH 5.05)

*The most popular poultry cut imported in last 5 years